

CAMBRIDGE ELECTRIC LIGHT COMPANY

COMMONWEALTH ELECTRIC COMPANY

Direct Testimony of Robert H. Martin

Exhibit CAM/COM-RHM

D.T.E. 00-83

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Robert H. Martin. My business address is 800 Boylston Street,
4 Boston, Massachusetts 02199.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am the Director, Electric Energy Supply, Asset Divestiture and Outsourcing for
7 NSTAR Services Company. In this capacity, I am responsible for coordinating
8 the divestiture of the generating assets and entitlements and the procurement of
9 supplies for Standard Offer and Default Service for Cambridge Electric Light
10 Company (“Cambridge”) and Commonwealth Electric Company
11 (“Commonwealth”) (together, “Com/Electric” or the “Companies”), as well as
12 Boston Edison Company (“Boston Edison”).

13 **Q. Please briefly summarize your educational background and business**
14 **experience.**

15 A. I am a graduate of Bentley College with a Bachelor of Science Degree in
16 Accounting. Upon graduation in 1974, I joined Commonwealth Energy System’s
17 Service Corporation where I held several accounting positions, including Group
18 Accounting Supervisor. In 1984, I accepted the position of Supervisor of Cost
19 Administration. In 1987, I was promoted to Manager of Revenue Requirements
20 and Cost Administration. In 1997, I became the Manager of Regulatory

1 Accounting and Special Projects for Cambridge, Commonwealth, Commonwealth
2 Gas Company and Canal Electric Company (“Canal”). In 1999, I became the
3 Director of Revenue Requirements for the regulated companies of NSTAR. I
4 assumed my present position in May 2000.

5 **Q. Please describe your present responsibilities.**

6 A. As Director, Electric Energy Supply, Asset Divestiture and Outsourcing, I am
7 responsible for securing a least-cost energy supply and for mitigating the cost
8 incurred under existing above-market Power Purchase Agreements (“PPAs”). My
9 responsibilities currently include coordinating the sale of NSTAR’s PPAs and
10 securing a supply for Standard Offer, Default Service and wholesale energy
11 customers.

12 **Q. Have you previously testified before the Department of Telecommunications**
13 **and Energy (the “Department”) or any other regulatory body?**

14 A. Yes, I have most recently presented testimony before the Department concerning
15 the reconciliation of Commonwealth’s and Cambridge’s Transition Charges in
16 D.T.E. 99-90. I have presented testimony before the Department in D.T.E. 98-
17 126, concerning the approval of Commonwealth’s buyout of its Pilgrim purchase
18 power contract, specifically providing a description of the cost savings for
19 Commonwealth’s customers, and the associated beneficial effect on
20 Commonwealth’s Transition Charge, resulting from the buyout. I have presented
21 testimony before the Department in D.T.E. 98-78/83, concerning the approval of
22 COM/Electric’s divestiture of its non-nuclear generating assets, providing a

1 description of the Residual Value Credit and a discussion of the resulting
2 Transition Charge, in compliance with Chapter 164 of the Acts of 1997 (the
3 “Act”) and the Department’s order in D.P.U./D.T.E. 97-111 (1998).

4 **II. PURPOSE OF TESTIMONY**

5 **Q. What is the purpose of your testimony?**

6 A. The purpose of my testimony is to describe the Companies’ efforts to mitigate
7 their transition costs to the maximum extent possible, consistent with the Act and
8 the Companies’ Restructuring Plan (the “Restructuring Plan”) approved by the
9 Department in D.P.U./D.T.E. 97-111. I will also describe how the Companies
10 procure Standard Offer and Default Service for their customers and the
11 Companies’ proposal for continued procurement during the year 2001.

12 **III. COMPANIES’ MITIGATION EFFORTS**

13 **Q. Are the Companies mitigating their transition costs?**

14 A. Yes. The Act requires that the Companies take all reasonable steps to mitigate
15 their transition costs “to the maximum extent possible” and encourages electric
16 companies to divest their generating assets and renegotiate or buy-out of above-
17 market PPAs. In D.P.U./D.T.E. 97-111, the Department found that the
18 Companies had committed to full mitigation of their transition costs and the
19 Restructuring Plan complied with the Act. In addition, in D.T.E. 98-78/83, the
20 Department found that the Companies’ successful divestiture of their fossil-fuel

1 generation assets and their efforts to divest their PPAs mitigated the Companies'
2 transition costs to the maximum extent possible.

3 **Q. What types of transition cost mitigation have been commenced or completed**
4 **by the Companies to date?**

5 **A.** Pursuant to the Act and their Restructuring Plan, the Companies committed to
6 aggressive mitigation efforts, including the divestiture of their fossil-fueled
7 generation facilities and the renegotiation or buy-out of above-market PPAs.

8 **Q. Describe generally the divestiture of the Companies' generating facilities.**

9 **A.** The Companies executed agreements with Southern Energy New England, L.L.C.
10 for the sale of the Companies' non-nuclear generating assets (except for
11 Cambridge's Blackstone Station ("Blackstone"), discussed later) held prior to
12 divestiture by Cambridge, Commonwealth and the Companies' generation
13 affiliate, Canal. Those agreements were assigned in order to effect an assignment
14 by Southern Energy New England, L.L.C. of the purchase of: (i) the Canal and
15 Commonwealth generating assets and interests to Southern Energy Canal, L.L.C.;
16 and (ii) the Cambridge generating assets to Southern Energy Kendall, L.L.C.
17 (collectively referred herein to as "Southern"). The assets involved in the
18 divestiture were Canal Unit 1, Canal Unit 2, Kendall Station, the Martha's
19 Vineyard diesels and a 1.4323 percent interest in the Wyman 4 generating unit
20 located in Yarmouth, Maine. These transactions were approved by the
21 Department in D.T.E. 98-78/83. Consistent with the Act and the Companies'
22 Department-approved Restructuring Plan, the Companies divested their

1 generation facilities through a market-driven auction whereby multiple bidders
2 were solicited through a detailed Request for Qualification (“RFQ”). The
3 Department found after review of the divestiture process that “the divestiture
4 process used by the Companies maximized the value of the generating assets for
5 customers and thus satisfies the Restructuring Act.”

6 **Q. What is the status of the Blackstone Station generating units owned by**
7 **Cambridge?**

8 A. As noted in the Companies’ restructuring and divestiture hearings, Blackstone is
9 subject to a Right of First Offer held by Harvard University (“Harvard”) on any
10 divestiture of the facility. The agreement accompanying the Right of First Offer,
11 which was executed in 1993, provides that in the event Cambridge divests itself of
12 Blackstone, it must first offer the facility to Harvard at fair market value. By
13 agreement, market value is to be determined by means of an appraisal.
14 Cambridge has met on a number of occasions with Harvard regarding the need to
15 mitigate the costs of Blackstone as part of the restructuring process, and hired the
16 firm of R.W. Beck to conduct an appraisal of the fair market value of Blackstone.
17 Cambridge will inform the Department at a later date when its mitigation efforts
18 regarding Blackstone are completed.

19 **Q. Regarding PPAs, with how many suppliers do the Companies hold**
20 **contracts?**

21 A. The Companies presently have 18 long-term contracts for supply from pre-
22 existing PPAs from utility and non-utility generators, including a firm energy

1 contract with Hydro Quebec and a “buy-back” contract from Southern. Please
2 refer to the exhibits filed with the testimony of Rose Ann Pelletier, Exhibit
3 CAM/COM-RAP for a listing of the contracts that the Companies have with
4 suppliers.

5 **Q. Have the Companies attempted to renegotiate the terms of these PPAs in**
6 **good faith?**

7 A. Yes, in addition to including the PPAs in the Companies’ auction as part of the
8 asset divestiture process, the Companies have engaged in a series of efforts to
9 divest pre-retail access PPAs through both general requests for proposals and
10 through individual agreements with the owners or operators of the power plants,
11 all in an effort to mitigate the Companies’ transition costs associated with these
12 contracts.

13 **Q. Have the Companies been successful in renegotiating or buying out any of**
14 **their PPA contracts?**

15 A. Yes, the Companies have negotiated or bought-out of four PPAs and are currently
16 involved in negotiation efforts with several suppliers to sell, buy-out, or
17 renegotiate their remaining long-term PPAs. Commonwealth bought out of its
18 contract with Boston Edison’s former Pilgrim Nuclear Power Station (“Pilgrim”)
19 and the Department approved this buy-out and the cost recovery in D.T.E. 98-
20 119/126. Further, Commonwealth has bought out of its obligations with
21 Plymouth Rock Energy Associates (“PREA”), approved by the Department in
22 D.P.U./D.T.E. 92-122-B. In addition, Commonwealth restructured its PPA

1 obligation with Lowell Cogeneration Company (“Lowell”) and the Department
2 approved the cost recovery of the restructured payments in D.T.E. 99-69. Finally,
3 the Department approved, in D.T.E. 99-89, the Companies’ proposal to
4 restructure their PPA with Canal for the Seabrook (“Seabrook”) PPA contract and
5 for cost recovery of the restructured payments.

6 **Q. Why do the Companies believe that they have mitigated their transition costs**
7 **associated with the PPAs to the maximum extent possible?**

8 A. Consistent with the Act and the Companies’ Restructuring Plan, the Companies
9 have attempted to mitigate their transition costs associated with PPAs through
10 good faith renegotiations and buy-outs. The Companies’ customers have realized
11 significant savings because of these efforts (Pilgrim, PREA, Lowell, Seabrook)
12 and will continue to realize savings in the future if and when the Companies
13 further reduce their PPA obligations through renegotiation, sale and buy-outs of
14 these contracts. In October 1999, the Companies, together with Boston Edison,
15 commenced a solicitation process to obtain offers for the sale, buy-out or
16 renegotiation of their remaining long-term PPA entitlements, as well as to obtain
17 power supply for their Standard Offer Service load. As of this filing, no buy-outs
18 of PPAs have been concluded as a result of the solicitation process. However, the
19 Companies will proceed with a divestiture of a PPA contract only to the extent
20 that the transaction will result in net benefits for their customers. If a divestiture
21 transaction would result in additional costs for customers and not produce
22 maximum mitigation of transition costs, the Companies will not pursue it. For

1 example, it would not be in customers' best interest to sell existing power
2 contracts at an imputed price of 3 cents per kilowatt-hour ("kWh") and then
3 proceed to procure Standard Offer supplies at 6 cents per kWh. The Companies
4 continue to explore all alternatives to reduce their transition costs associated with
5 PPAs.

6 **IV. STANDARD OFFER SERVICE AND DEFAULT SERVICE**
7 **PROCUREMENT**

8 **Q. Describe how the Companies currently obtain Standard Offer Service for**
9 **their customers.**

10 A. Since the implementation of electric industry restructuring in March 1998, the
11 Companies have been responsible for supplying retail customers with Standard
12 Offer and Default Service. On March 1, 1998, the Companies supplied Standard
13 Offer and Default Service from their existing portfolio of resources, which
14 included owned generation units, long-term PPAs with utility and non-utility
15 generators, and short-term purchases from the spot market or the New England
16 Power Pool (now, ISO New England, Inc. ("ISO-NE")). After the divestiture of
17 their generating assets, the Companies have purchased electricity to serve
18 Standard Offer and Default Service from a combination of: (1) pre-existing PPAs
19 from utility and non-utility generators; (2) "buy-back" contracts from the owners
20 of divested generation assets (Southern); and (3) additional short-term contracts
21 with marketers and spot purchases from IOS-NE for peaking and intermediate
22 load. The "buy-back" contract, which was approved by the Department in D.T.E.

1 98-78/83, is a contract whereby the Companies purchase approximately 37.6
2 percent of their power for standard offer customers from Southern, the purchaser
3 of the Companies' generating facilities, to support the Companies' Standard Offer
4 Service obligations. The amount to be purchased under this agreement represents
5 the proportionate share that the generating resources represented within the
6 Companies' supply portfolio. The term of this agreement runs through the earlier
7 of February 2005 or the date when the Companies no longer require a Standard
8 Offer supply. In May 1999, the Companies entered into a short-term arrangement
9 to serve their power supply requirements through December 1999. In 2000, the
10 Companies, together with Boston Edison, entered into additional short-term
11 arrangements to serve the majority of their power supply requirements for the six-
12 month periods January through June and July through December, relying on
13 bilateral and/or ISO-NE spot purchases for any remaining excess requirements.
14 The changing portfolio used to provide Standard Offer and Default Service to
15 customers of the Companies is described in the exhibits filed with the testimony
16 of Rose Ann Pelletier in Exhibit CAM/COM-RAP. The Companies, as
17 mentioned previously, are continually evaluating proposals, jointly with Boston
18 Edison, to procure Standard Offer Service supply for varying periods throughout
19 the Standard Offer period.

1 **Q. How does the cost of incremental Standard Offer Service supply generally**
2 **compare to the market?**

3 A. The cost for additional short-term contracts with marketers and spot purchases
4 from ISO-NE for peaking and intermediate load is typically above the average
5 market price for electricity that one would secure. Such purchases coupled
6 together with an existing portfolio of PPA generation contracts that also are above
7 average market price, produce significant costs and deferrals because the Standard
8 Offer rate charged to retail customers is below market.

9 **Q. What is the Companies' current plan regarding the solicitation of power**
10 **supply for Default Service?**

11 A. The Companies are implementing market-based rates for Default Service in
12 December 2000 in accordance with the procedures established by the Department
13 in D.T.E. 99-60. The Companies will continue to solicit bids for Default Service
14 supply and set Default Service rates at market levels in accordance with the
15 requirements of the Act and the Department's procedures established in D.T.E.
16 99-60.

17 **Q. What is the Companies' current plan regarding the solicitation of power**
18 **supply for Standard Offer Service?**

19 A. In October 1999, NSTAR released an offering memorandum for the transfer of
20 PPA entitlements and solicitation of power supply for aggregate Standard Offer
21 Service load. Final binding bids were due in December 1999 and NSTAR has
22 since negotiated separately with the individual bidders for both short and long-
23 term supply. Once evaluations are final and completed, NSTAR will then take

1 the appropriate actions based on the responses to the offering memorandum and in
2 the best interests of their customers.

3 **Q. Does this conclude your testimony?**

4 A. Yes, it does.